



Briefing Note

Commission for Labor Cooperation

May 2004

EMPLOYMENT RATES AND DEMOGRAPHIC TRENDS IN NORTH AMERICA

One of the most frequently cited indicators of a country's labor market performance is the unemployment rate. However, an equally important, yet less publicized, statistic is the "employment rate" (sometimes referred to as the "employment-to-population ratio"), which is defined as the number of employed persons (of working age) as a percent of the number of persons in the working-age population.¹ To quote the International Labour Office, "the employment rate provides information on the ability of an economy to create jobs; for many countries, it ranks in importance with the unemployment rate" (ILO 2002, 49). This briefing note explains the relevance of the employment rate, describes trends in the employment rate in the three North American countries, and discusses the distinct challenges that each country faces in increasing its employment rate.

The Significance of the Employment Rate

There is a clear-cut rationale for governments to attempt to lower unemployment rates: increased employment plays an important role in the vitality of a nation's economy, thus aiding in poverty reduction; unemployment imposes economic and personal hardship on those without work; potential labor resources are wasted; and taxpayers have to help support the unemployed. However, the impetus to use public policy to increase the employment rate is less obvious: after all, if persons can support themselves while being considered "economically inactive," why should government attempt to in-

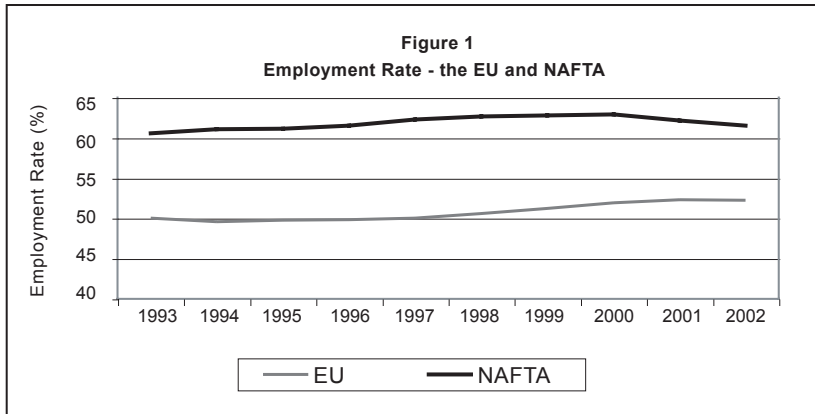
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duce activity? The answer to this question, and the reason it is important to elevate the employment rate, revolves around two factors: population aging, which affects some countries more than others; and the fact that persons who are not labor force participants frequently do cost taxpayers money.

There is a growing concern in many first-world countries, especially in Europe, regarding the effects of an aging population (OECD 2003). As a larger proportion of the work force approaches retirement and exits the labor force, there is a fear that there will not be a large enough supply of younger workers entering the labor market to replace these workers. This is an increasing worry in Canada, a moderate concern in the U.S., and a non-issue in Mexico given its bottom-heavy demographic profile. An inability to replace the number of tax-contributing workers, compounded by a decrease in the number of working-age persons for every person aged 65 years and over, places pressure on government budgets. Mobilizing those currently outside the labor force will expand the tax base and offset the increased demand from the older, economically inactive population for public assistance in areas such as health care and public pensions. Finally, other economically inactive persons within society besides those over 65 years old also need public financial support. In short, then, increasing the employment rate will decrease the number of persons receiving public monies, while increasing the number of persons contributing.

International Comparisons

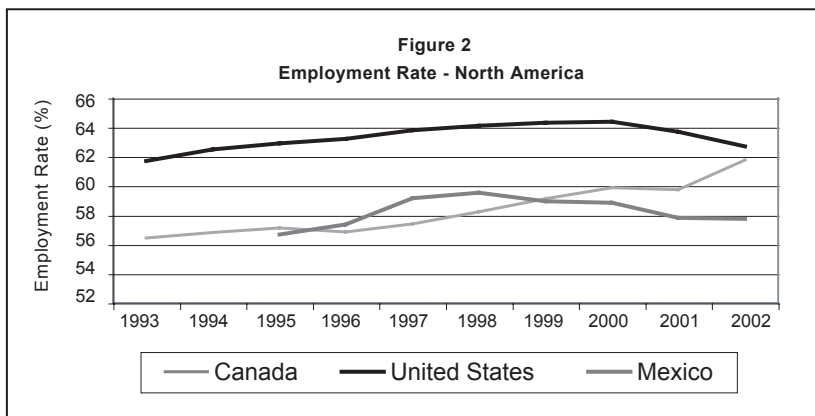
Trend analysis shows that in terms of total change over our reference period (1993–2002), the European Union has shown the greatest increase (2.2



percentage points), with the NAFTA region’s rate increasing by 0.9 percentage points (see figure 1).² Since 2000, the employment rate in North America has declined slightly, an obvious effect of the recession of 2001. The EU employment rate grew slowly from 1994 to 1997, more rapidly from 1998 to 2001, and then declined moderately in 2002. In 2002, the NAFTA region had an employment rate of 61.5%; the EU rate was substantially lower, at 52.2%.

North America: Individual Country Trends

Employment rates trended upwards in all three North American countries for much of the past decade, but trends have diverged somewhat more recently (see figure 2). After a slight decrease in 2001, Canada’s employment rate surged strongly in 2002, contrasting with the United States (which experienced decreases in both 2001 and 2002) and Mexico (where the rate remained stagnant in both 2001 and 2002). The trends in all three countries were influenced both by the recession and by increases in the number of persons of working age.



In Canada, the employment rate has grown steadily over the past decade (1993–2002), increasing by 5.4 percentage points to its 2002 level (61.8%). In only two years (1996 and 2001) was there a slight decline or stagnation in this pattern.

Canada’s ability to continue this pattern of growth over the next ten years could potentially be impeded by its increasingly top-heavy demographic structure. The median age of the Canadian population increased from 32.8 years in 1990 to 36.6 years in 2001. More importantly, the percentage of seniors (aged 65+) is projected to increase from 12% in 2002 to 15% in 2011. This aging phenomenon is further exacerbated by the fact that the percentage of the total population under the age of 19 is expected to decrease from 25% in 2002 to 23% in 2011. These trends will limit Canada’s ability to increase its employment rate as there will be more older people leaving the labor force and fewer new labor market entrants to replace them.

The employment rate in the United States increased continuously from 1993 to 2000. However, the recent recession has drastically affected employment in that country, decreasing its employment rate 1.7 percentage points over the past two years (2001 and 2002) to its 2002 level of 62.7%, which, however, is still the highest in North America.

The United States is not demographically challenged in terms of its ability to realize increases in its employment rate. While the median age of the U.S. population increased from 32.5 years in 1990 to 35.3 years in 2000, the percentage of the population over the age of 65 is expected to hold steady over the next decade, near its 2002 level (13%). Also, the percentage of persons younger than 19 years is projected to decrease by only one percentage point from 2002 (28%) to 2010 (27%).

Mexico’s employment rate increased from 1995 to 1998, but then declined between 1999 and 2001, stagnating in 2002 at 57.8%. These recent declines in the employment rate are due in large part to the sizable number of new labor market entrants, who in recent years have

found it more difficult to gain employment. Mexico's population is very young compared with the rest of North America, with a median age of 23.3 years in 2000 (up 3.6 years from its 1990 level of 19.7 years). The percentage of seniors in the population was just 6% in 2002 and is not expected to increase above that level by 2010. Conversely, the percentage of persons below 19 years is continually declining, from 50% of the total population in 1990 to 43% in 2002, and it is projected to fall to 36% by 2010. This suggests that there will be a steady influx of new labor market entrants, as well as an increasing number of persons of working age, over the next ten years.

It is also necessary to point out one other significant difference between Mexico and its northern neighbors. Although the employment rate for males is higher than that for females in all three countries, the gap is significantly wider in Mexico than in either Canada or the United States. Indeed, the male employment rate in Mexico exceeds those

of Canada and the United States by a considerable margin, whereas the female employment rate lags behind those in the other two countries by an even larger amount due to the relatively low female labor force participation.

Conclusion

The ability of a country to create jobs is an important factor that helps foster a growing economy. The employment rate indicates the number of economically active persons in relation to the overall working-age population. Obviously, by increasing the employment rate, an economy gains more contributors to overall GDP and the public purse via taxes.

While policies to increase job supply and to mobilize the economically inactive population do help to increase the employment rate, a country's demographic profile—namely, the proportion of new labor market entrants versus the number of older persons leaving the job market—can have pronounced effects on its employment rate. Canada's

Definitions and Data Sources

Definitions. The *employment rate* is defined as total employment as a percentage of the working-age population. There are a number of differences in the definitions of these concepts in Canada, Mexico, and the United States. In order to increase comparability, the data on *working-age population* in this note are for persons aged 15 years and older in Canada and Mexico and for persons aged 16 years and older in the United States. (The data for Mexico were provided by the Directorate of Labor Research and Statistics, STPS). As regards *total employment*, Canada and Mexico include unpaid workers who worked at least one hour in the reference period; in the United States, unpaid workers are required to work at least 15 hours to be classified as employed, and are limited to unpaid family workers. In addition, Mexico counts persons who expect to start or return to work in the next four weeks as being employed (this accounts for roughly 1% of total employment); Canada and the United States do not.

Sources. The data for figure 1 are from the ILO (2003). The employment rate for each region was calculated by computing averages weighted by population for each country in the region. For a discussion of the differences

between countries in the way employment and the working-age population are defined, see ILO (2003).

The employment rates presented in figure 2 and discussed in the text were computed directly from the working-age populations and employment statistics produced by the individual countries' statistical agencies. There may be some slight differences between these rates and those published by the Bureau of Labor Statistics and Statistics Canada as a result of minor methodological differences (Mexico does not publish employment rates).

Data on North American employment rates are from the Labour Force Survey [CANSIM Table 282-0002] for Canada, the Current Population Survey for the United States, and the Encuesta Nacional de Empleo for Mexico. Population data are from CANSIM, Table 109-5205 and CANSIM II Table 051-0001 for Canada; U.S. Census Bureau, Population Estimates Program, Population Division [Current Population Reports Series P-25, Nos. 311, 917, 1095] for the U.S.; and the Consejo Nacional de Población for Mexico. Population projections are from the 2001 Census for Canada, Fullerton and Toossi (2001) for the United States, and CONAPO (1998) for Mexico.

primary challenge will be to supply the labor force with workers, possibly via immigration, inducing economically inactive persons into the labor force, and/or reducing the exodus of older workers from the labor force. The United States will not need to focus so directly on demographic issues; rather, its employment rate will be predominantly affected by pure labor market issues, such as the supply of and demand for jobs and its ability to mobilize persons who are currently outside of the labor force. Mexico's younger population and the number of new labor market entrants will create demand-side challenges that could affect its employment rate. However, should the country manage to provide employment opportunities for these younger workers, there will be potential to increase its employment rate, especially given the higher propensity

for younger Mexican women to work than that of older women.

Notes

¹ The *unemployment rate* is the number of unemployed persons as a percentage of the number of persons in the labor force. To be unemployed, a person must be available to work and actively seeking a job. To be in the labor force, a person must be either employed or unemployed; to be in the working-age population, a person must be of working age (which is different for each country—see *Definitions* section).

² Austria is not included in the EU average for 2002; the country constituted 2.1% of the total EU working-age population in 2001.

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